

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served by First Class United States Mail, postage prepaid, upon the following, this ^{12th}~~9th~~ day of February, 2007.

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Nicholas K. Kile

| Indiana American Water Co. | | | | | ATTACHMENT A |
|--------------------------------------|---|--|--|--|---|
| Minimum Standard Filing Requirements | | | | | |
| Summary of Alleged Deficiencies | | | | | |
| Code | Requirement | Alleged Deficiency | Cure | Explanation | Response |
| 1-5-7 (2) | A chart of accounts that details the types of charges incurred in specific subaccounts as well as a description of the utility's account numbering and coding format. | No description or information provided on the coding structure used. | Code Index (number and what it stands for) and account codes, including but not limited to, department codes, expense codes, district codes, business unit codes, company numbers, etc. A description of what codes are needed for various transactions would also be helpful. | Without this information, OUCC can not adequately review Petitioner's general ledger -- we need to understand how they code transactions and what those codes mean. | Behind Tab 2 in Book 1 is a complete chart of accounts, including Object Account Number, Subaccount Number, Account Description, NARUC Account Number, the line where it occurs on the financial statement, and the financial statement line number description. It is far more than was provided in the last rate case, and it is uncertain exactly what further information is desired. |
| 1-5-7 (4) | All annual reports to shareowners and quarterly reports to shareowners of the utility and its parent corporation, if any, for the last two (2) years and the year subsequent to the test year. | No annual reports were provided. Petitioner notes that Indiana American and American Waterworks are not currently publicly traded companies. | Annual reports for Thames Water and/or RWE. | These reports could provide verification of financial and operational information. It also may permit review for additional information not provided elsewhere. | Thames Water and RWE are not the parent company. The parent company is American Water Works, Inc., and it does not issues annual reports to shareholders. The information provided in response to this requirement is the same information that was provided in the last rate case. We can provide audited financial statements for American, if desired. |
| 1-5-8 (1)(c) | An income statement for the test year under the rates being proposed by the electing utility. Expenses reflected in this income statement shall be summarized by the following classifications: | Didn't provide a sub-total for operating income before income taxes and did not separate current income taxes from deferred income taxes. | Income statement that includes this information. | Facilitates analysis of income statement, including comparisons with prior filings, other utilities, and calculation of ratios and other analysis. | The standard income statement reporting format was used, which is the same format that was used in the last case. The subtotal for Operating Income before Income Taxes can be easily calculated from the information provided. |
| | (i) Operating expenses by category. | | | | |
| | (ii) Depreciation. | | | | |
| | (iii) Taxes other than income. | | | | |
| | (iv) Operating income before income taxes. | | | | |
| | (v) Current federal income taxes. | | | | |
| | (vi) Current state income taxes. | | | | |
| | (vii) Deferred income taxes. | | | | |
| | (viii) Income tax credits. | | | | |
| | (ix) Other charges and credits. | | | | |
| | (x) Net utility operating income. | | | | |
| 1-5-8 (2) | All supporting working papers for each pro forma adjustment listed in subdivision (1), including the following: | Petitioner's MSFR filing does not include adequate support for several revenue and expense adjustments. The missing information is necessary to verify Petitioner's adjustments. | See specific cures below. | OUCC is unable to accurately review Petitioner's test year adjustments, understand methodology used, replicate Petitioner's calculations or check for mathematical accuracy. | See responses for each individual adjustment below. Note: the MSFRs (170 IAC 1-5-8(2) require "[a]ctual test year expenses . . . [, a]djustments to test year levels. . . [, and a] description of adjustment methodology." |
| | (A) Actual test year expenses. | | | | |
| | (B) Adjustments to test year levels. | | | | |
| | (C) A description of adjustment methodology | | | | |

| Indiana American Water Co. Minimum Standard Filing Requirements Summary of Alleged Deficiencies | | | | | ATTACHMENT A |
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| 1-5-8 (2) | | Labor Expense Adjustment | Listing of anticipated raises, by job title, and verification that it has been approved (not just an estimate). | Support for 4% raise is assumed for non-union employees. No evidence provided that this adjustment is fixed, known and measurable. | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-4 following the Labor Expense Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. Please note that the anticipated raises are broken down by job title in pages 16-20 following the tab. |
| | | Purchased Water Expense Adjustment | 1) Calculation of \$110,000 proposed adjustment, including volumes purchased and price. 2) Notice or bill showing the new rate(s) to be charged by East Chicago. 3) Effective date of new prices. | Provided only a single number per district -- No calculation provided as to how these numbers were derived. | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-4 following the Purchased Water Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. |
| | | Purchased Power Expense Adjustment | Information supporting fixed known and measurable price increases (Notification from utility, bill, IURC Order granting increase to power provider, etc, including effective date of new rates). | Did not provide support for assumed price increase - Provided calculation only. | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-4 following the Purchased Fuel and Power Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. Further information on the calculation is shown on the last page behind the tab. |
| | | Chemical Expenses | Bid tabulations for 2006 and 2007 or similar information to support assumed prices assumed and effective date of new prices. | Provided calculation but no support for assumed new prices. | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-7 following the Chemicals Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. It should be noted that the 2006 prices are actual costs and the 2007 prices per chemical are provided. |
| | | Management Fees Expense | | | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-5 following the Support Services Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. |

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| | | Labor Increase | Support for pay increase | Needed evidence this adjustment is fixed, known, and measurable. | See above |
| | | Increased Service Company Costs | Calculation and support for increased audit fees – letter from auditor, etc. | Something to show what the numbers are based on and that they are fixed, known, and measurable. | See above. Note the footnote on 16th page following the Tab explaining that the adjustment is due to Sarbanes Oxley compliance. |
| | | Group Insurance expense adj. | Support for increases proposed (such as insurance invoices or 3rd party listing of insurance costs broken down by type of coverage). | | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 3-4 following the Group Insurance Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. The detail supporting this adjustment is included behind the Labor Expense Tab in MSFR 10. Group insurance expense reflects actual 2007 group insurance rates. |
| | | Pension expense adj. | Need schedule that breaks down total AWWA pension costs by various business units/companies. | Information provided was for AWW overall but does not support the amount proposed for Indiana American. | The requested information is not required by the MSFRs. Petitioner's actual test year amount and adjustments are shown on pages 2-3 following the Pension Expense Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. Please also note that the requested schedule is provided in MSFR 25 and also on the last pages of labor expense workpapers in MSFR 10. |
| | | Other Insurance exp. Adj. | Need support for increases proposed such as insurance invoices or 3rd party listing of insurance costs with detailed breakdown by category. | | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-4 following the Insurance Other Than Group Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. |
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| 1-5-8 (2) | | Customer Accounts | Need support for postage increases assumed that shows they are fixed, known, and measurable -- notice from post office or some other 3rd party confirmation. | | The requested information is not required by the MSFRs. Petitioner's actual test year amount and adjustments are shown on pages 2-10 following the Customer Accounting Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. Further note that the notice requested is not received by Petitioner. Information about postal rate increases was obtained from their rate filing as detailed on the USPS.gov website. |
| | | Rent Expense | Need calculation of rent expense (including new rate and effective date), support as a fixed known and measurable item (such as new rental agreement that shows amount and effective date), as well as current rate / prior rate (for comparison purposes). | | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-4 following the Rents Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. |
| | | Miscellaneous Expenses | | | Actual test year amount and adjustments are shown on pages 2-4 following the Miscellaneous Expense Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. Further information is also included behind the tab. |
| | | Annualization of 401K | Need calculation used to make this annualization. | | See description of Miscellaneous Expense Adjustment in MSFR 10. |
| | | Security Expense | Need calculation showing how this adjustment was derived as well as support (such as contract that shows pricing and effective date). | | See description immediately following Miscellaneous Expense Tab in MSFR 10. A copy of the referenced contract therein is available. |
| | | Auto Insurance Expense | Copy of billing or support for increase proposed. Demonstration of how proposed costs were calculated. | | See description immediately following Miscellaneous Expense Tab in MSFR 10. A copy of the referenced contract therein is available. The adjustment is based upon actual 2006 expenses. |
| | | Leased Autos | Calculation of how proposed costs were determined including, but not limited to, the number of vehicles per district, the cost per vehicle assumed, and when vehicle will be leased. Also, support for costs such as quote or contract with leasing agent. | | See page 2 of 2 of workpaper entitled "calculation of leased vehicle expense for 2007 additions to be included in 2006 rate case" behind Miscellaneous Expense Tab for MSFR 10. |

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| | | Maintenance Expense | Calculation of proposed costs including detail of cost assumptions and other info needed such as number of wells cleaned or valves maintained, etc. This should also include assumptions as to frequency assumed for cleanings and other maintenance (ie., well cleaned every 3 years). | Need to be able to determine whether this is "routine" maintenance or "additional" maintenance outside of a typical test year. | See Petitioner's Exhibit SRS, pp. 6-9. |
| 1-5-8 (2) | | Property Tax Expense | Support for most recent property tax expense assumed -- best support is in the form of property tax invoices. | Need invoices to determine whether the property tax paid includes penalties and interest (not recurring) and to verify that it is for only one year or period. Also, supports property tax rates and increases assumed in proposed adjustment. | The requested information is not required by the MSFRs. Actual test year amount and adjustments are shown on pages 2-4 following the General Taxes Tab in MSFR 10. The description of the adjustment methodology is shown in the first page behind the tab. Further detail can be supplied on property taxes, but it should be noted the information requested by the OUCC would be quite voluminous. |
| 1-5-8 (19) | The utility's pension expense for the test year and an identification of any unfunded amounts. | Didn't identify any unfunded amounts. Can not determine if Petitioner is intending to imply that all items are fully funded. | Statement what the unfunded pension costs are or a statement that the pension fund is fully funded. Explanation and supporting documentation and calculations for Petitioner's \$2, 371,171 pro forma Pension Expense. Petitioner supplied the Actuarial report for American Water Works showing 2005 American Water's ERISA minimum contribution is \$0 and American Water's maximum deductible contribution under IRS code is \$135,276,937. The Actuarial report states, "The credit balance as of June 30, 2005 will be sufficient to cover any required quarterly contributions for the 2006 plan year base on this year's valuation results." | | Petitioner's test year pension expense and pro forma pension expense is shown behind Tab 24 in the MSFRs. The unfunded amount of the American Water Works Pension Fund under SFAS 87 and ERISA is shown at pages MS-6 and MS-9 behind Tab 25 in the MSFRs. Note: Indiana-American does not have its own individual pension fund; the pension fund is the American Water Works pension fund, and this is the only plan that exists. |
| 1-5-8 (27) | A schedule of all research and development expenditures incurred by the utility during the test period. | Petitioner provided a summary of costs by month but does not provide any more detail about what the expenditures were for or who they were paid to. | 1) Additional information explaining what the amortization expense relates to, 2) how much is being amortized, 3) over what period; also 4) detailed information on current expenditures made in each month including who it was paid to and what it was for. | | See the schedule behind the Tab for MSFR 31. Further information on the details of that schedule can be provided, but the requirement for a "schedule" in the MSFRs does not specify the items listed by the OUCC. |

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| 1-5-8 (36) | Computations showing the deferred income taxes of the utility derived by using accelerated tax depreciation. Separate computations shall be provided for state and federal income taxes. | No computation showing deferred taxes derived from tax (accelerated) depreciation. | Provide computation showing how deferred taxes from tax depreciation were calculated. | | The complete computation of deferred incomes taxes, including amounts associated with acceleration tax depreciation, are included behind Tab 39 of the MSFRs. Pursuant to SFAS 109, which reflects the balance sheet approach to calculate deferred tax assets and liabilities, the computation involves much more than the accelerated tax depreciation contemplated by the MSFRs. |
| 1-5-10 (2) | A schedule showing end of test period balances for a utility's plant in service and accumulated depreciation on a functional basis. | 1) Did not provide accum. depreciation on functional basis. 2) Provided some end of test year utility plant balance info, but not by "function" (such as Source of supply, transmission, distribution, etc). 3) Plant additions info not provided using functional detail standard to NARUC (and in IURC report). OUCC located some data, but it was provided under a different MSFR heading. | Property and accum. depreciation to be reported (mains, wells, land, etc..) Petitioner should provide a schedule that shows this breakdown at the end of the test year for both UPIS and accum. depreciation. | | The accumulated depreciation on a functional basis as of 12/31/05 is contained at III-4 and III-5 of the water depreciation study and page 11 of the sewer depreciation study behind Tab 57 of the MSFRs. These pages also show the accrual rates in effect at the time such that 6 additional months of accumulated depreciation is easily calculated from the information provided. Nevertheless, an updated schedule is attached showing the update from 12/31/05 to 6/30/06. |
| 1-5-10 (5) | A schedule of pro forma utility additions subsequent to the test year ending with the proposed cutoff date, including the following: | Did not provide in-service dates. | Update schedule adding column for in service dates. | | Actual information was provided through August, with the balance estimated to be the last four months of 2006. Much of these additions are pursuant to Blanket Purchase Orders which are being added continuously. |
| | (A) Estimated in service date or dates. | | | | |
| | (B) Actual costs per books at the end of the test period. | | | | |
| | (C) Estimated cost of utility additions based on costs as defined by the applicable NARUC or FERC Uniform System of Accounts. | | | | |
| | (D) Pro forma retirements, cost to retire, or net proceeds received from the sale of property related to the proposed addition to rate base. | | | | |
| | (E) For those utility additions that have received CWIP ratemaking treatment, the utility shall show AFUDC as a separate component of cost and include an explanation of the allocation of AFUDC to retail customers receiving service from the utility in Indiana | | | | |

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| 1-5-13 (1) | Capitalization and capitalization ratios at the end of the test year and at the end of the year beginning twelve (12) months prior to the test year, respectively, including the following information: | Some information included in another MSFR section but it was for 12/31/06. | Need capitalization and cap ratios for end of test year and prior year. | Facilitates analysis and review of this information. | See first page behind the tab for MSFR 59. We interpret the requirement as seeking the end of the calendar year containing the date beginning 12 months prior to the test year, which is 12/31/04. |
| | (A) Year-end interest coverage ratios for the test year and the year ended twelve (12) months prior to the end of the test year, as well as a pro forma interest coverage under the rates proposed by the utility. | | | | |
| 1-5-13 (1) | (B) Year-end preferred stock dividend coverage ratios for the test year and the year ended twelve (12) months prior to the end of the test year. | | | | |
| | (C) The supporting calculations for the information described in clauses (A) and (B). | | | | |
| 1-5-13 (2) | The following financial data relating to the utility as of the end of the most recent five (5) fiscal years: | Data provided for A-J, but no supporting calculations as required by Section K | Provide supporting calculations | Facilitates our review of the calculations of these statistics and eliminates unnecessary data requests trying to determine what was or was not included in the calculations. | See the income statement and balance sheet behind the tab for MSFR 60. It must be assumed that these are the calculations that are requested as the actual calculation of the financial ratios is self-explanatory. |
| | (A) Annual price earnings ratio. | | | | |
| | (B) Earnings-book value ratio on a per share basis, using average book value. | | | | |
| | (C) Annual dividend yield. | | | | |
| | (D) Annual earnings per share in dollars. | | | | |
| | (E) Annual dividends per share in dollars. | | | | |
| | (F) A book value per share yearly. | | | | |
| | (G) Average annual market price per share calculated using monthly high and low share market prices. | | | | |
| | (H) Pretax interest coverage ratio. | | | | |
| | (I) Posttax interest coverage ratio. | | | | |
| | (J) Market price-book value ratio average. | | | | |
| | (K) The supporting calculations for the information described in this subdivision. | | | | |
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| 1-5-13 (3) | The utility's capital structure and weighted average cost of capital as of the test year end and as of the latest date reasonably available prior to the post-filing date, respectively, including the following information: | Data provided only as of 12/31/06. | Need this information as of the end of the test year as well. | Facilitates analysis and comparisons. | The capital structure at 12/31/06 is provided at <u>Petitioner's Exhibit JM-J-1</u> , Schedule 1, page 1 of 4, and the adjustments that were made from the capital structure at the end of the test year to produce this schedule are explained at <u>Petitioner's Exhibit JM-J</u> , pp 20-24. Nevertheless, Petitioner is submitting herewith the capital structure at 6/30/06 prior to these adjustments. |
| | (A) Common equity. | | | | |
| | (B) Long term debt, including that maturing within one (1) year. | | | | |
| | (C) Other debt, with specificity. | | | | |
| | (D) Preferred or preference stock. | | | | |
| | (E) Customer deposits. | | | | |
| | (F) Sources of cost free capital, including pre-1971 investment tax credit, deferred taxes for ratemaking, and FAS 106 nonexternally funded liabilities. | | | | |
| 1-5-13 (3) | | | | | |
| 1-5-13 (5) | The latest prospectus for the utility or its parent company, or both. | None provided. | Thames or RWE prospectus | | See the description behind tab for MSFR 63. The parent company is American Water Works Company, Inc. |
| 1-5-13 (7) | A schedule of long term debt outstanding, by series, including current maturities, for the end of the test year and the latest date reasonably available | It doesn't appear that current maturities are broken out. | | | This information is listed at the bottom of the schedule provided in MSFR 65. In addition, it can also be found on the fifth page behind Tab 59 of the MSFRs and is also provided in <u>Petitioner's Exhibit JM-J-1</u> , Schedule 1, page 3 of 4. |
| Additional Items | | Petitioner's Schedule GMV-2, Schedule 3 appears to be a duplicate of GMV-2, Schedule 4 (DSIC Adjustment). OUCC believes Schedule 3 should contain the "number of days billed" adjustment. | Provide accurate Schedule GMV-2, Schedule 3 | | We will be filing a correction. All of the information has already provided except for a summary schedule. |